

County of Kutai
International Resource Cities Diagnostic
March 29, 2001



Submitted by:
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USAID Cooperative Agreement

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Summary

Kutai County is a large administrative area (27,263 km²) located in the Province of East Kalimantan with a relatively low population density (slightly over 400,000 people). The center of the county (equivalent to US County Seat) is Kecamatan (Sub-District) Tenggarong, less than an hour trip from the capital city of the province, the City of Samarinda.

Kutai, famous as the oldest Kingdom in Indonesia, has natural resources such as coal, oil, gas, agriculture and forestry, gold and other mining products. Kutai is also famous for its river, the Mahakam, which has both tourism and transportation uses, but is prone to floods during the rainy season. Kutai currently accounts for about 30% of the total revenue for the Province.

Despite this, people in Kutai County still live in poverty, and in unsafe, damaged environments. Although Kutai has several big or foreign companies, their quality of life is still inappropriate. Most of the people still earn their living from farming (38%), handicrafts (18%), and trading (10%). As Regional Autonomy is implemented, one of the principles interests for Kutai County is how to attract investment to be able to finance sustainable development.

THE RESOURCE CITIES PROJECT

On February 27, 2001 *Kabupaten Kutai* (the County of Kutai) signed a Memorandum of Understanding indicating their interest in participating in the Building Institutions for Good Governance (BIGG) program, implemented by ICMA. Specifically, they agreed to participate in the International Resource Cities component of BIGG. Given this commitment, a municipal diagnostic was required to:

- Define the conditions of the County of Kutai; conditions that will influence the effectiveness of the exchange.
- Provide a profile of the county that can be used to select the most appropriate US partner.
- Identify the appropriate type of technical assistance or resources that should be exchanged in the partnership.
- Establish a framework for the technical exchange work plan of the partnership.

On March 28 and 29, 2001 *Deborah Kimble*, Senior Municipal Governance Advisor and *Trisanti Mitayani*, Partnership Manager from ICMA - BIGG met with members of the executive and administrative staff of the County.

This report provides an overview of the meetings and findings of the diagnostic trip as well as an analysis of the findings as they relate to meeting the objectives of the county—flood control and development. Further, the diagnostic report offers a list of potential technical approaches that the partners may want to pursue. The report is divided in to four sections:

- 1) Background on the process;
- 2) Summary of the meetings conducted;
- 3) Description of the context that guided the analysis of the findings; and
- 4) Recommendations on scope of technical exchange for the partnership.

1. Background on the Diagnostic Process

The diagnostic in the County of Kutai is part of a province-wide process of tying four local government units—the County of Pasir, the County of Kutai, the City of Samarinda and the City of Balikpapan—through the budget and financial training program of the ICMA-BIGG program. As a result, a fair amount of the issues dealing with financial practices in the county were investigated earlier by Senior Budget and Finance Advisor Philip Rosenberg and Budget and Finance Specialist Charles Poluan.

The general review meeting held on Thursday morning, March 29, 2001 focused on the overarching issues that might be addressed through the Resource Cities partnership.

The common problems of autonomy – resource sharing, human resource capacity, merging the routine and development budgets, and financing of infrastructure, to name just a few—were submitted as the critical areas of concern for Kutai. Participants in the March 29 meeting indicated that Kutai faced the specific challenges of improving the economic condition of the county. In particular, staff identified the following as areas in which action was necessary:

- Environmental clean up of the river,
- Land development and land control, and
- Balanced investment strategies.

Each of these issues is discussed in more detail below.

2. Analysis Of Diagnostic Findings

Kutai County has around 426,000 people in an administrative area of about 27,263 km². It is located at the north of the City of Samarinda and is linked with its famous river Mahakam from the upstream to the downstream at the sea.

Environmental Clean Up: Recently Kutai was divided into three separate counties. While this made geographic sense—creating more manageable sized areas—it has created new problems. One of the more serious problems is the down-stream pollution, which has resulted in the dying off of the fish and contamination of the river, both potential resources for economic development.

Kutai Staff feel that two systemic issues need to be addressed if the pollution problem is to be properly addressed—development of a regional pollution control program and increasing the local council's understanding of their role in a regional problem. In both instances, the onset of autonomy changes the role local government plays in the design and implementation of both.

Land Development And Land Control: Land development and control is linked to the environmental issues, but further implications of a weak development and control policy relate to the use of land for industrial development. Staff indicated they wanted to determine how to use development policy as a way to create more economic opportunity for the people of the community and not just the large corporations.

Further, members of the BAPPEDA (regional development planning board) staff indicated that consideration now had to be given to conflicts that could arise between local land regulations and those decrees and regulations adopted by the ministries and president. The conflict stems from the lack of clear understanding of the delineation of responsibility and authority between local dinas (service departments) and line ministers in such areas as natural resource management, mining, forestry, etc.

Balanced Investment Strategy: Development of an investment strategy is contingent on improving the county's ability to estimate financial resources and expenditures. As with other LGU's in East Kalimantan, this is highly influenced by the special revenue transfers from the central government. Several factors that must be considered in resolving the financial questions include:

- Gathering data about the natural gas resources so that an accurate estimate of tax revenues can be calculated. The local government has to rely on the government data; data that they feel is not used in calculations that benefit the county.
- Increasing the predictability of revenue transfers and collection. Beyond the issue of having access to better data, several staff members indicated that collecting the taxes from both the central government and local business firms (those fees and taxes that are locally levied) is a problem.
- Increasing the amount of money collected locally from local taxes. Several people indicated that the county needed to negotiate better tax schemes with the larger businesses and that the amount of local tax revenue should be increased, offsetting the eventual decline in future central government revenue transfers.

3. Interview Findings

For purposes of analysis, ICMA/USAID developed a four-point structure by which to determine the most useful technical information for each of the local government units in

Indonesia as they implement Laws 22 and 25. The four points are (including Kutai's steps to improve in each area):

1. Organizational capacity
 - Developing/introducing new analytical skills that correspond to new autonomy responsibilities
 - Building citizen involvement programs that contribute to the community consensus.
2. Transparent budget and financial systems and practices
 - Estimating tax revenues from all sources
 - Improving revenue collection
 - Conducting a revenue analysis for purposes of developing an investment strategy to attract business.
3. Efficient deliver of services
 - Adopting a regional pollution control plan
 - Creating an investment strategy that benefits low income/low skilled citizens.
4. Effective citizen participation

No such citizen participation programs indicated from the interviews, as Kutai is interested in trying to find the better way to increase the regional revenue by itself so they could run the development without being heavily dependent on national government.

4. Recommended Approaches For IRCP For Kutai County

Recommended approaches for an IRCP for Kutai County could go through several issues that are expected by the government staff, such as:

- Environmental clean-up of the river
- Land development and land control policies
- Balanced investment strategies to increase the regional revenue.